Ameritech Michigan pursuant to an interim arrangement under state law, not the 1996 Act.

The Commission's low threshold for potential competition arguably will allow substantial deregulation while placing no additional burdens on the ILECs to demonstrate that competition exists. Moreover, the level of deregulation that an ILEC would obtain once it has met the potential competition threshold would virtually deregulate the ILECs' access offerings, particularly with regard to contract tariffs and RFPs. Contrary to the Commission's goal of explicitly associating Switched Access charges with their underlying costs, there is a serious risk that contract tariffs and RFPs may not be cost based, since the Commission's requirements of cost justification under ICBs may provide no meaningful opportunity to ensure that rates are fair, non-discriminatory, and not predatory in effect.

The Commission's current proposal to "front end load" extremely substantial deregulatory relief for the ILECs, prior to the development of sustainable or meaningful competition, would result in a prematurely deregulated monopoly and would endanger the development of local competition. Indeed, in applying the three-prong test -- the ABC's for Switched Access reform -- it is easy to see that the Commission's proposed market-based approach loads too much pricing flexibility at the "front end" before any competition has become evident in the market,[68] thereby violating all three letters of TCG's "ABC" test.

As the Commission has done in the past, TCG urges the Commission to first restructure its Switched Access regime and study the effects of its reform prior to implementing deregulation.

C. THE COMMISSION SHOULD ADOPT A THREE PHASE MARKET-BASED DEREGULATORY APPROACH THAT PERMITS THE COMMISSION TO FIRST MEASURE THE SUCCESS OF SWITCHED ACCESS RESTRUCTURING PRIOR TO IMPLEMENTING DEREGULATION.

TCG proposes that the Commission follow its successful methodology for implementing a step-by-step deregulatory structure. Without such an approach, the Commission will be unable to evaluate the rate structuring plans it hopes to implement as a result of this proceeding. Logic dictates that it would be unwise to implement major changes overnight; this would prematurely set up a deregulatory structure prior to determining what are the costs that an ILEC has a legitimate right to recover, and run the risk of destabilizing both local and long distance markets.

Specifically, the Commission should begin Phase I by implementing rate structure reforms. TCG agrees with the rate structure reforms set forth in the Notice with the modifications described herein. However, it is imperative that the

[68]It should be noted that one of the reasons why Special Access competition flourished under the Commission's incremental, step-by-step deregulatory plan was because the dominant carriers were forced to play by the rules and did not have contracting authority until substantial competition existed.

rate structure reforms be coincident with changes in Universal Service policies. Logically, the subsidies currently derived through Switched Access revenues must be reassessed, then shifted to the Universal Service funding mechanism. Under the Commission's proposal, restructuring switching elements may be segregated into flat-rate elements and MOU elements. A similar disaggregation would apply to transport elements. Clearly, these rate structure reforms are substantial and complex.

Therefore, once a new rate structure is in place, the Commission must allow ample time to assess whether its reforms successfully work. Simultaneously adding deregulation policies will make it difficult, if not impossible, for the Commission to assess the results of its reforms. As described above, the Commission's local transport changes were much more modest (a full year was given over to implementation) than those contemplated in this Notice. It is reasonable that the industry will require at least as long to adjust to the new Switched Access marketplace that will result from the Commission's actions in this proceeding.

Moreover, in the absence of Separations reform, there will be little or no change in the total interstate costs assigned to Switched Access, and, therefore, it is not feasible to undertake any substantial changes in overall Switched Access revenues until Separations has been addressed. Despite this fact, the rate structure reforms outlined in the Notice and recommended in these Comments would permit very substantial reductions in the per-minute costs of Switched Access, allowing long distance carriers to offer incremental long distance prices much lower than current access charges permit. Thus, even without Separations reform, the Commission's actions can introduce substantial new pricing opportunities for long distance carriers.

Assuming that the Commission's planned Separations reforms will not be completed at the time the Commission is prepared to proceed with its proposed rate structure reform, TCG recommends that the Commission's second stage of access charge reform should occur when the Joint Board completes its review of separations and implements changes affecting the interstate revenue assignments. Implementing a new separations allocation will require adjustments in price levels to conform to any corresponding changes in Separations and lead to lower rate levels. Phase II logically will be based on mechanical cost shifts that result from the reallocation. Phase I and Phase II, once in place, will prompt Switched Access prices that more closely reflect their underlying costs.

It is only after Phase I and II have had time to take effect, and only after the Commission has assessed the results of its first two phases of access reform, should the Commission begin to consider market-based deregulation. Phase I will remove the structural problems in the current rate elements. Phase II will more accurately allocate interstate costs. Phase III permits the market to further reduce prices, but only after the market has demonstrated a capability to do so. This approach best satisfies the ABCs test.

VI. CONCLUSION.

For the reasons set forth herein, TCG generally supports the Commission's proposals for Switched Access reform, with the recommended modifications. These modified proposals will better align rates with the way costs are incurred, and will eliminate artificial limitations or inhibitions on competition and will reform price levels through genuine market-based competition. These recommendations will also best meet the ABC litmus test in determining the best method to provide a catalyst for Switched Access competition. By appropriately establishing flat-rate charges to cover explicit non-traffic sensitive costs, the charges will be "addressable" by competition so that consumers will have a choice among competitors; in addition, they will be "Based on Costs". Last they will act as a catalyst permitting competition to take root through network development, and thus will be competition-enhancing.

However, these goals cannot be achieved unless the Commission follows the step-by-step approach to deregulation that it has successfully implemented in the past. The approach should be implemented in three stages. Phase I, coincident with establishing Universal Service Policies, the Commission should implement basic rate structure reforms as discussed herein. The Commission should then allow ample time to measure the success of these substantial, complex rate reforms. In Phase II, the Commission should initiate its Separations reform which will logically create a new layer of reforms. These reforms will serve as strong catalysts in promoting Switched Access competition. At this point, and as the Commission has so often done in the past, it can begin to evaluate the conditions in the marketplace and determine whether further deregulation is warranted which then can be implemented in Phase III.

Respectfully submitted,

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